THE WALL STREET JOURNAL.

November 5, 2007, 3:26 pm

Erasing $120 Billion in Market Cap

Posted by David Gaffen

With **Citigroup's** 7% decline in value today, the ongoing battle between it and **Bank of America** over who has the largest market capitalization has been put on hold for a time, as Citi now clearly trails BAC in terms of this typical valuation.

The credit-market turmoil of the last several months has taken a large bite out of the market capitalization of most major banks and securities. But substantial losses have occurred in these names since Bear Stearns and Goldman Sachs **announced earnings on Sept. 20**.

Changes in Market Caps

Company	9/20 Market Cap (bil)	11/5 Market Cap (intraday)	Change
Citigroup	**$234.80**	$174.71	**-$60.09**
Bank of America	$225.35	**$196.46**	-$28.89
Merrill Lynch	$64.41	$47.49	-$16.92
JP Morgan Chase	$157.73	$143.05	-$14.68
Morgan Stanley	$68.59	$58.22	-$10.37
Lehman Brothers	$33.30	$30.54	-$2.49
Bear Stearns	$13.31	$11.55	-$1.76
Goldman Sachs	$80.94	$86.10	+$5.16

Combining eight of the major banks and brokerages, **$120 billion in market cap has been wiped out in less than seven weeks**, encompassing the period of time in which investors were supposedly going to receive greater clarity on just what was going wrong at these various firms.

They now know there's a lot going wrong — **but still don't know when it's over**. That line about markets hating uncertainty may be a cliché, but it's a cliché for a reason, and recent trade in the likes of Citigroup and Merrill Lynch illustrate that. In that period of time, Citigroup itself has seen $50 billion lost in market-cap, while Merrill has lost $17 billion, and the expectation is that this **hasn't been fully accounted for by all of the firms**.

"I feel strongly that more mea culpas are to come," says Todd Harrison, CEO of Minyanville.com, in commentary today. **"How many more? I've been saying $100 billion in writedowns before year-end and that may prove light."**

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$120 billion in market cap has been wiped out in less than seven weeks, that's just what's (quote) "in the lighted side of the moon"!
Yes I agree… but what's on the dark side of the moon?
Another +250 Billion… maybe, lets just say over the next (Year)? The "WHO" knows what's really out there… and they have just ran out of printing suppliers ("IT")(credit) lines of "Green Paper Backs"… now bouncing off .72 futures!
The OZ

Comment by Wake up... "Dorothy...wake up!" - November 5, 2007 at 3:37 pm

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TODAY'S MARKETS 5:13 p.m. EST

STOCKS	LAST	CHANGE	%CHANGE
Dow Jones Industrials *	12383.89	176.72	1.45
S&P 500 *	1353.96	23.35	1.75
Nasdaq Composite *	2349.91	23.71	1.02
Russell 2000 *	702.39	13.79	2.00

COMMODITIES	LAST	CHANGE
Gold, Feb	929.20	18.50
Crude Oil	90.60	-0.11

TREASURYS	YIELD	CHANGE
10-Year Note	3.5843	-7/32

CURRENCIES	LAST	PRIOR DAY
Yen (per dollar)	106.9900	106.86
Euro (in dollars)	1.4793	1.4784

Source: Reuters and Dow Jones * At close
Note: Closing quotes are preliminary

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These companies would be worth more if they just performed normal functions.
This exotic Bull-sh## cost them way more than it could have been worth.
The additional cost on the US economy they exploit would be ten times more.

Comment by Mistakes Hurt - November 5, 2007 at 3:39 pm

Citi's loss of $50 billion in market cap is a ridiculous over-reaction. While there may be write-downs in excess of what they have taken and forecast to date, there is no possible way Citi could lose $50 billion. That would be more than half of their total exposure. The credit instruments in question are just not that bad.

By way of full disclosure, I should note that I am Chairman Emeritus of ATD, which was sold to Citi recently, so I hold a lot of Citi stock and am NOT a disinterested party. However, as a retired professor of finance (Rutgers Univ), I'd say this whether I owned Citi stock or not.

Comment by David K. Whitcomb, PhD - November 5, 2007 at 3:46 pm

Wake up Dorothy wake up. Amen.

Comment by Richard Wilson - November 5, 2007 at 3:52 pm

Financial innovation is trying to justify your salary by concocting all this exotic bull&*%^ and making sure that it does not blow up on your watch.

Comment by Snake oil salemen! - November 5, 2007 at 4:11 pm

Dr. Whitcomb = congrats on your sale of ATD to Citi. But the transparency, liquidity and price discovery available in equity trading is the direct opposite of the conflicted intertwining of credit rating agencies, structured finance underwriters (C) and investors. If these vehicles had transparency and were properly rated you would see some bids. But it appears that Citi intends to play a waiting game and hopes that the rating agencies withhold additional downgrades and that cash flows in the structures hold up. Relatively big gamble here. Nice addon of Win Bischoff to keep the London money center crowd stroked. Don't you find it telling that they couldn't convince anyone to step up to the CEO job right away? Too much out of control mess.

Comment by Equity market microstructures are not structured finance - November 5, 2007 at 4:14 pm

To Mr. Whitcomb - they said the same thing of the WTC - no way those building could fall down.

Now, I realize we're talking physical structures versus financial structures but try and sell $50 billion of properties where there is a supply glut and you'll find out just how fast you can lose money.

BTW - has anyone asked what were the educational pedigrees of the geniuses who bought these worthless pieces of junk? Might be an "educational" learning tool for the next time around.

Comment by anon2 - November 5, 2007 at 4:15 pm

Regarding the comments of David K. Whitcomb, I sincerely appreciate and respect your disclosure.

-Mark

Comment by Mark Gavagan - November 5, 2007 at 4:19 pm

Warren wasn't kidding when he called these things "weapons of mass destruction".

My advice is call up the financial geniuses at SmithBarney and order up a swap - C for BRK.A Problem though, you might have to take an additional haircut above and beyond the current market price. Do it now - the rating agencies will continue to lower the hammer. Especially since they've awaken from their 3 year slumber while the train was barreling down the track with horns and sirens blaring!!

Comment by anon2 - November 5, 2007 at 4:20 pm

Why are these idiots getting hundreds of millions after losing tens of billions for their shareholders? This is nonsense.

Comment by William - November 5, 2007 at 4:29 pm

Would anyone now aht the book value would be after all forcasted writedowns and icluding a

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Comment by Analyst - November 5, 2007 at 4:35 pm

To David K. Whitcomb: While you might be correct that Citi will not lose $50 billion, market capitalization is based upon P/E multiples. Earnings might not decline much, but market expectations for future earnings growth has probably moderated since one of Citi's earnings streams has turned into a loss stream. So, the P/E multiple compresses.

Comment by Anonymous - November 5, 2007 at 4:40 pm

Google has a market cap larger than the combined market cap of the brokers cited in this story.

Comment by citishareholder - November 5, 2007 at 5:15 pm

I'm with William: what is itthat these folks are paid millions when they've mismanaged so many more millions?

Comment by Kit - November 5, 2007 at 5:37 pm

Google has a market cap larger than the combined market cap of the brokers cited in this story.

A fine observation, but what is one to conclude from it?

Comment by Tocqueville - November 5, 2007 at 5:41 pm

The rating agencies will have to issue new ratings in order to protect their own domain and sustain the impression that they are arms length in the process…cough cough. The stress test of the models used was not of the levels easily achieved if not already surpassed.

Comment by suvacrew - November 5, 2007 at 5:41 pm

David Whitcomb - You didn't sell your company to Citi, by taking their stock as consideration you merged and became their silent minority partner. Unfortunately for you, your partner did some fairly unethical things (SIV's) and sold some fairly worthless paper (CDO's) so you and your partner are going to take a very big hit. It will be a lot more than $50 billion when all their subprime and CDO's are added up and they have to account for the CDO's they stuffed in their SIV's and their normal portfolio of mortgages declines in value as defaults increase and they are hit with securities lawsuits for underwriting billions of this junk and their investment banking and trading revenues decline because no one with a brain will want to continue working there and few will want to do business with them when they are exposed as selling worthless paper to their best clients around the world.

Comment by John - November 5, 2007 at 5:47 pm

I agree with William and Kit. It is unethical to reward failure so lavishly. Compensation for the top 1% is out of order. The current administration has refused to do anything about it.

Comment by Enough is Enough - November 5, 2007 at 5:50 pm

To Mr. I mean Dr. Whitcomb: Knowing that smart guys like you are rarely wrong, I'm sure your deal will work out. However, did it ever occur to you that the models these guys are using are phony? Maybe they will pay back their bonuses to help you out.

Comment by Cobweb - November 5, 2007 at 5:51 pm

So what's the problem? If you add up all the go away money these guy's that ran thier companies into the ground you will get a larger number than the decline in market cap.

The problem is that we as shareholders don't have any say in what the boss gets to kill the company and then leave.

The boards are not doing anythng but collecting their checks and getting a free lunch.

So , excuse me but I believe until the stakeholders have more to say about these kill and go bonuses it will contunue to happen over and over again.

Unique Insights

Comment by Unique Insights - November 5, 2007 at 5:59 pm

These shares market cap shrinks will follow US mortgage bulble burst all the way into next summer, as housing prices plunge to affordable level.

According to last 20 years
bubble burst experience,
banking, finance shares will
make 30-50 % correction from their peaks (Mer and Citi make 50 % while others make 30% correction)

correction to

Comment by Warren Huang - November 5, 2007 at 7:06 pm

Running a corporation is much simpler than running a democracy with all it's obsolete checks and balances. (Are you listening investment banks and Wall Street? You don't have any internal checks and balances and far too much secrecy.) I think one of the most amazing features of decade was the astute little people that saw the housing train wreck coming. It was discussed ad nauseum in forums for years, yet the financial sector, all Harvard and Yale and Wharton graduates (and a few butcher boys) seemingly had on blinders and like lemmings dove over the cliff (pockets stuffed with cash and landing on feather beds). There is a strong argument to triple tax Wall Street and corporate profiteers, to save them from their addiction. I think we are seeing how high tax rates and a balanced economy can co-exist. For one thing, the money is recycled and stays in America. Something the Europeans have been practicing for a while with their nanny states. Think where we might be if we embraced Edwards Deming (continuous improvement) and the Japanese embraced Milton Friedman (maximize profits) instead.

Comment by Anonymous - November 5, 2007 at 7:09 pm

When bankers say "exposure is limited" assume they really mean "we will have over 10 billion in write offs"

Comment by Everything is just fine - November 5, 2007 at 7:53 pm

As Warren Buffetmaster has said many times, "want to find out what your asset is worth? put it on the market and you'll soon find out." However Citi hasn't wanted to do that. "Credit instruments in question are just not that bad." I'm sorry Dr., too many fund, retirement, pensions, and private accounts simply DO NOT AGREE. With the locomotive ARM's resets hauling ass down the tracks who wants to be standing in the way??

Comment by Anonymous Johnathan - November 5, 2007 at 8:08 pm

When will the market realize that the budget cuts coming as a result of these losses are going to hurt the TECH sector darlings who source a significant part of their revenues from the financial sector?

Comment by ohenry - November 5, 2007 at 8:39 pm

Like many small shareholders there is a tendency to react in a corporate profit and loss logic structure to these c.d.o and s.i.v. financial debactles of 2007. However we should keep in mind the short position operations and stradle option tradings which perform inversly. It a sad state of affairs, however, the pension funds, investment funds and small investors as it undermines the credibility and productivity of our North American and global civilizations.

Comment by Normand Larocque, Ontario, Canada. - November 6, 2007 at 5:18 am

Has anyone taken in the big question: What amount was off book and not accounted for yet!

Comment by Brenda - November 6, 2007 at 6:29 am

When you get a chance, can you correct the math in the table? C dropped by 60, not 50.

Comment by Naitik - November 6, 2007 at 10:36 am

When does the next shoe fall at B of A??

Comment by Lee - November 6, 2007 at 11:29 am

So why are we blaming the banks who made the loans rather than the deadbeats who took out the loans. When the banks get done foreclosing on these garbage borrows they will own a lot of US Real Estate and hold deficiency judgements against a lot of fraudulent lowlife borrowers. Our entire system is build on trust, if you borrow money you pay it back regardless who you borrowed it from. The banks need aggressively go after these freeloaders for all they are worth or may be worth in the future. They owe the money they need to be held accountable for repayment. Quit blaming the banks and start holding the true culprits accountable. Think where we'd be without the banks to lend the money. Trying renting for life ! Next time these low lifes come crying for a loan the banks should show them how the street feels.

Comment by Bullet Bob - November 6, 2007 at 11:42 am

The reason the credits aren't as bad as some are saying, at this point, is that loans are still being paid off. As long as that happens, the situation will eventually clear out and the banks and markets will recover. Obviously, that doesn't mean that all of these loans will pay off, just that for now, cash flows are still being paid because payments are still being made.

Comment by None - November 6, 2007 at 12:30 pm

I agree with my good friend and ex-colleague David Whitcomb that Citi's loss of $50 billion in market cap is likely an over-reaction. The loss is magnified by a lack of confidence in Citi's management and board. They didn't disclose faithfully in the past, so many people are wondering now whether they uncovered all the skeletons in their closets.
By way of disclosure, I am an original investor in ATD and presently hold Citi stock.

Comment by Ephraim Sudit - November 6, 2007 at 1:10 pm

There is money to be made in financials-differentiate btw the banks -BAC has no SIVs off-book, their CEO is not in danger of losing his job, their losses were largly trading losses not subprime,altho they certainly have some exposure. I think their investmnt in CWF will pay off as well as their investment in China.Dollar-average back-in and enjoy the dividend. Go back and see their 5 year chart ag the Dow and its good. Citibank is more of a risk but also larger reward. One way to play C is go after their preferred which is paying 7.3% as of 11/5 with good equity upside and small issue (60,000,000 shares)-probably will be future ratings downgrade but cant see dividend in any danger or rating falling below investment grade. Both CWF ands WaMu will survive or be bought up at premiums to current price. More risk=more reward.

Comment by Jim - November 6, 2007 at 1:15 pm

One (and often only) thing CEOs of those large financial companies truly excel at is negotiating THEIR OWN compensation package (more or less unrelated to mid- or long-term company results).
It's like sharing in gains but NEVER in losses in casino.
Rotten to the core.

Comment by SomeBody - November 6, 2007 at 2:58 pm

Cash flow is king–I hope the hidden ice-bergs are small.

Comment by Paul Rich - November 6, 2007 at 3:05 pm

it never seems to amaze me how these financial institutions could make such finanial blunders.. all these CEO.s should be Fired. Fired Immediately….

Comment by casper - November 6, 2007 at 4:22 pm

What astounds me is not that Citigroup has lost $60 billion market capitalization, but that JP Morgan & BofA have only lost $28 and $14 billion, respectively. It seems to me that all money center banks were engaged in similar businesses. All are likely to be holding similar subprime/Alt-A mortgage tranches on the books, or in SIVs they are legally responsible for. They have similar exposures, in relation to their size. Citigroup has big exposure to SIVs, but, it might be able to pay less than 100% of the losses on these. JP Morgan & BofA seem to be holding this toxic waste directly on their own books. They simply have not marked much of it down to market value. Citigroup, may be more honest about its losses than the others, although they were quite dishonest when the losses were first announced. All the big banks have time bombs ticking. These bombs will explode as soon as their accountants force them to finally mark the toxic waste assets down to market value, and the investing public realizes how deep those losses really are. In spite of the super-SIV they want to create, sooner or later, the banks will have to declare the true level of their losses. So far, however, JPM & BAC have been spared much of the type of stock price loss already experienced by Citi. Eventually, however, they will feel the full measure of stock price pain.

Comment by Cybergoodman - November 7, 2007 at 8:45 am
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